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● Main Points:

- Many of you may have started off daytrading by trying to buy dips, buy bounces, and ride it on the way up for profits. This works, if you're using a cup reversal pattern etc, but the best trades are buying breakouts - not bounces.
- This lesson is designed to help you learn how to recognize 2-day breakout patterns for stocks by looking many different examples from mid-Jan 2001.
- The guidelines are simple, and they work. Here they are:
 1. Use a 2-day 2-minute chart to identify the previous high of the stock. By a 2-day chart, I mean look at yesterday and today so far. So, if today is Tuesday, set your chart to look at Monday's data and today. Trade with both a 2-day and 1/2 day intraday chart active.
 2. Draw a horizontal trendline straight across from the stocks' previous high. In the ITWO example below, that's about 57. whole number up from the previous day's high. In this case, that's "buy TXCC if it gets over 57 3/8".
 4. Your stop loss is at the whole number, so you never risk more than 3/8 on any trade. You trail a stop to lock in profits.
- The same strategy works (in reverse) for shorts, you simply identify the previous day's low, and set a short entry at below the whole number underneath this value. Say ORCL traded yesterday with a high of 40 and a low of 38 1/2. You would short ORCL when it loses 38, say at 37 5/8, on a breakdown.
- Why are these patterns so very important to recognize? Simple: because that's where many professionals (like myself) look to enter stocks, and this creates buying momentum.
- You can enter exactly over the previous day's high, but I prefer to wait just a bit to make sure the stock is safely over the whole number rounded up from the previous day's high. This is the same reasoning behind why we don't buy a stock at, say 39 5/8... it's right under 40 decade number resistance. Same with the 2-day plays, we want to time our entry to be rounded up over a whole number above the previous day's high.
- Some of the best strategies in trading are the simplest, repeatable ones that work time and time again. This is such a technique - it works very well, and is my #1 preferred entry on stock trades. Particularly when it's
- For an audio discussion of this and other techniques I've developed, [click this link](#) and then click the interview next to my name, Ken Calhoun, Daytrading University.

Buying 2-Day Highs: Breakout Chart Patterns Made Easy

These trades are best done during my favorite time of day to trade, from 9:40am til 11am, our "primetime" for daytraders.

ITWO EXAMPLE:

On the right, we see ITWO 2-day chart. The buy is right after the open, over the 57 from the previous day's high. You could have done this one twice, once for a quick trade on the open 57 3/8 to 58, the next time from the 57 3/8 on up to 60.



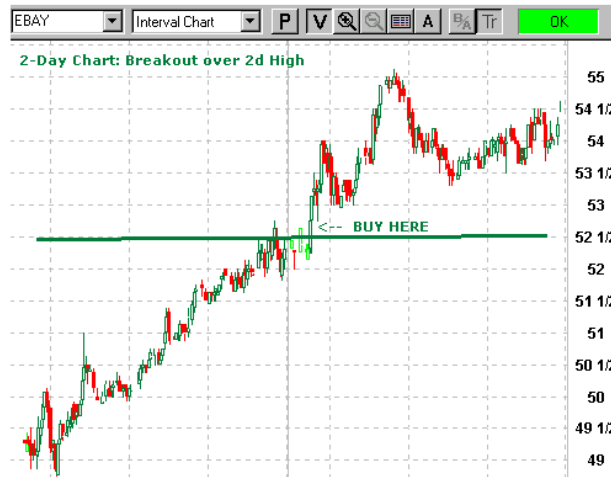
EBAY EXAMPLE:

Again, we see that a buy on the open at right over 52 3/8 or so would be fine.

Since we always trail a stop of about 3/8 (the same as our max. stop loss), we would be out from 52 3/8 up near 53 1/2 for this trade.

You could enter again over a cup breakout above the 54, say at 54 3/8, for a second trade in this strong stock.

Do not be afraid to "buy high" - your reason for buying is because you believe others are also buying, and will continue to buy, so you can sell to them later, for a profit.



KLAC EXAMPLE:

Here we see a breakout on the open over 44 3/4 or so. We'd enter at right over the 45, say at 45 3/8 on this trade.

Note that you can enter exactly over the previous day's high (where the 'buy here' arrow shows), we like to usually wait til over the previous whole number up over the high, which would be over the 45. Either entry is good.

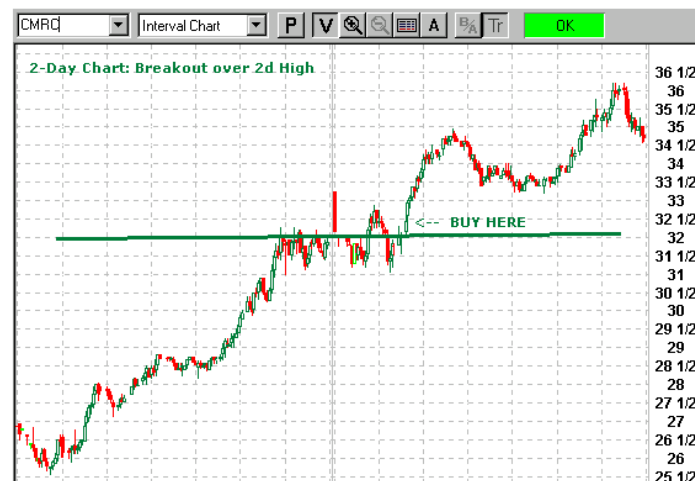


CMRC EXAMPLE:

Alright, on this 2-day chart you can see consolidation towards the end of the first day, right under 32 resistance.

On the second day, we trade a breakout over 32 3/8 or so. We'd be out roughly even on the first attempt (stopped out even), and in for a good run on the second buy, which topped up over 34.

In our live trading room, we called this one for 3 separate profitable entries this morning on the way up to the 34 1/2 high in the morning session.



EXTR EXAMPLE:

Here's a final long example, EXTR. Our high is at the 48, a buy alert over the 48 3/8. It ran up a total of 4 points over this alert.

Trader's tip: if you miss out on the first entry, try a new entry one point up - say in this case you didn't get in at 48 3/8, you could enter again over 49 3/8 or the 50 3/8.

These two-day breakout cup patterns are very powerful and you should learn to master them in order to become a successful Nasdaq daytrader.



Shorting 2-Day Lows: Using Breakdown Chart Patterns

Here's the inverse of the above, learning how to short 2-day breakdowns. They are effective for the same reasons as the long plays, eg professional money moves a stock based on it making a breakout/breakdown over or under the previous day's high/low.

TXCC EXAMPLE:

On the right, we see TXCC 2-day chart in a breakdown pattern. The short is after an initial bear cup after the open, under the 50 decade support level.

Short TXCC under 49 5/8, trail a stop at 3/8 or so up from your original short entry.

This one would be covered initially at around 48 1/2 for + 1 1/8. If you are patient, or wanted to re-enter the position short later, you could make up to 3 points on it that day.



TQNT EXAMPLE:

Here's a nice volatile stock with good volume and short trading possibilities.

We see here that it bounced a number of times off of 38 support before finally breaking down to a low of 34 1/2.

The short entry is at 37 5/8, with a cover at 37 or so, for a +5/8 trade. You could short the afternoon breakdown as well, for a 36 5/8 to 35 short, another + 1 5/8 on it.



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- Time of Day Reversals and Pivots

• Main Points:

- To become skilled at day trading, you need to be able to anticipate time of day effects in the market.
- What this means is, you know already not to trade during the lunch dead time right? From 11 or 11:30 til 1pm is a slow time in the market, most often, and is a bad time to trade. What else do you need to know about time of day effects? Let's look at reversals.
- There are several phases of each market day. Let's look at the 3 that I focus on the most from 8:30 til 11:30 or so.
- Premarket: 8:30 til 9:30. Look for premarket gaps and overall breadth in the premarket trend. Are the sector leaders (MSFT CSCO INTC SUNW etc) getting buying, getting sold, or staying flat?
- **First Half Hour Reversals:** From 9:30 til 10, the COMPQ often reverses 2-3 times, usually around every 10 minutes or so, at 9:40, at 9:50 and again near 10am (give or take several minutes).
- 10:00-10:30am - Major trend is getting established by now. We also anticipate a reversal around 10:30 many times, particularly if the market's been selling, drifting down all morning, it will attract buyers frequently around 10:30 (also 12:30) for a "bounce".
- 11, 12:30, 2, 2:30 3, 3:30 ... all are also times where the market frequently pivots, or changes broad market direction.
- Watch the COMPQ, TRINQ and sector charts closely, eg SOX GIN GHA GSO etc to spot whether specific sectors are stronger than others, if there's convergence (agreement) or divergence among sectors, etc.



Time of Day Reversals and Pivots You Should Know About

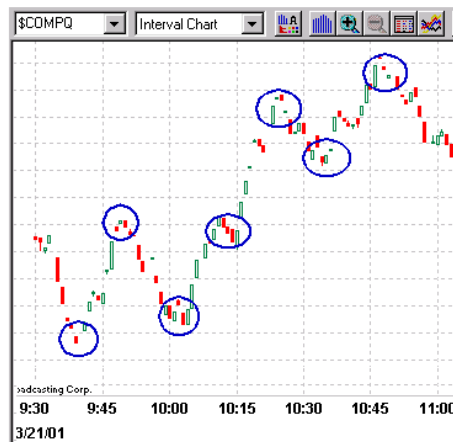
This lesson has many different index charts with the pivot / reversal times circled in blue for you to see.

The goal is to prepare you for trading "within the reversals" in the live market.

You need to prepare, for example, to enter and exit positions in a 5 to 8 minute round trip window for trades that you do from 9:30 til 10am daily.

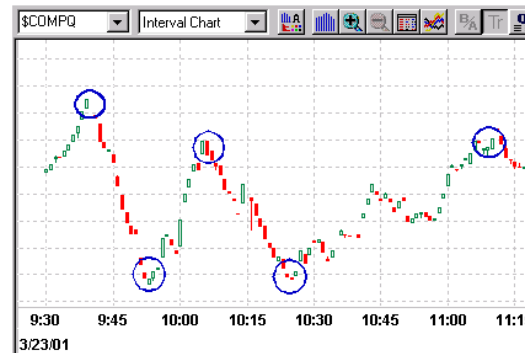
After 10:00 am, your trades may last a bit longer, as long as 15 minutes or so.

Let's take a look at the charts to the right. In this **first COMPQ half day chart**, you can see reversals at **9:40 9:50 10am**, followed by a pause/continuation up til **10:30**, then selling right before **11am**. Getting to learn this "pacing" is important, to help you from getting stopped out, or getting into trades too late into a given direction.



For example, if the market's been getting buyers from 9:30 til 9:38 straight, you probably are too late to get in for another long, over the 9:40-9:50 timeframe, unless the charts are making new highs etc. Plan your trades accordingly.

Here to the right is a **second COMPQ chart**, with our reversals spotted for you at **9:40, 9:50, 10:05**, and right before **10:30** again.



As you can see, you need to trade relatively fast if you trade the first half hour. The 9:30 to 10am timeframe is generally best left to more experienced traders (eg over a year experience).

There are plenty of profitable opportunities from 10-11, the next major wave in the market, and these should be looked at for continuation breakouts and bounce reversals to trade.

\$GIN EXAMPLE:

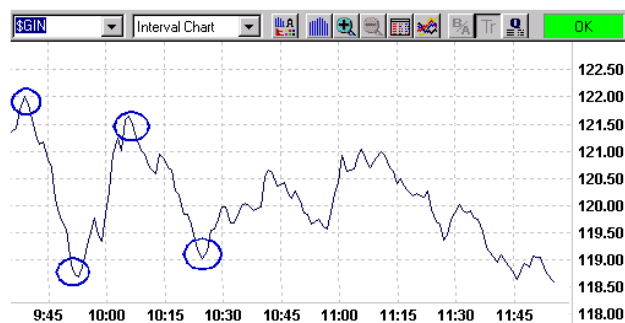
In addition to the composite index, the \$COMPQ, you need to track at least 2-3 sector charts, such as the Goldman Sachs Internet Index, the \$GIN.

Again, you can see reversals follow the broad market, at the 9:40, 9:50 10:05 and right before 10:30.

What should you look for on the sector charts?

Divergence, relative strength/weakness from one sector to another.

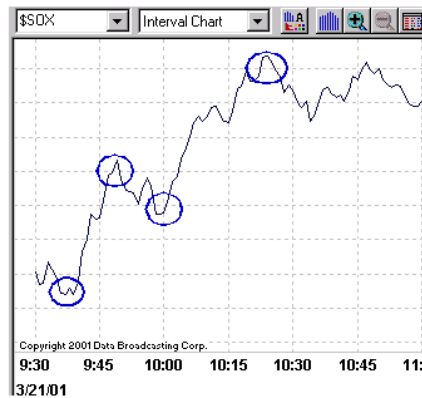
You want to see where the big money is moving: say out of internet and into semiconductors, the \$SOX.... by spotting divergence across sectors, you'll be able to uncover trading opportunities that otherwise would remain hidden from view.



The sector charts are your first way to spot this. If for example the \$SOX is up +3.1% and the \$GIN is only up +1.8% on the day so far, at 10am, you would look for semiconductors to buy, eg KLAC VTSS XLNX, before you'd be shopping for internet stocks.

In the \$SOX chart to the right, you can see reversals, in the context of an overall uptrend. If you were looking to choose between nets and semis, using the \$GIN above and the \$SOX to the right, you'd be buying semis on any new breakout high, as they are stronger on the day.

If the biotechs, \$NBI, were say down -0.8% on the day, you might look to be shorting them on any sign of a market reversal downwards.



Another \$COMPQ EXAMPLE:

Here's another example, for the Nasdaq Composite, the COMPQ, to the right.

What do you notice about this chart?

We got initial buying in the morning, up to a top around 11am, followed by selling down into the fibonacci/50% retracement range.

How often does it reverse in a major swing direction from 10-11 vs from 11-15:00(3pm)?

You should notice that the volatility and reversals are fastest and strongest in the early part of the day, where most if not all of your trading should be done.



Let's look at this next example to the right. **What's different about it's reversals**, from 9:30 to 12 noon, compare to the one right above it?

The selling is as strong as, or stronger than, the buying is, on the reversals. You can see this in the length of the downtrends after each wave of buying.

This should tip you off to the potential (which occurred) of more selling later in the day.

When looking at your reversals, take close note of the relative strength/weakness of the buying vs selling on each leg of the chart pattern.

Look for "which is dominant - buyers or sellers?". If the answer comes back "none-it's a choppy day" - then of course you know to trade more lightly, or not at all.

Your trading opportunities are more profitable when there's a strong trend in the market.



Finally, let's look at using the TRINQ reversals.

I often make note that the TRINQ is a very useful inverse indicator for spotting net buy vs selling strength, and for spotting market reversals a bit earlier than you see on the sector charts and composite index chart.

\$TRINQ EXAMPLE:

Although the TRINQ is useful say only 60-70% of the days for spotting reversals, it is always good for evaluating the net buying/selling strength in the market.

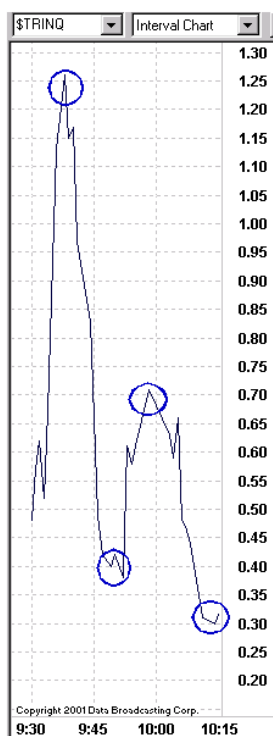
A TRINQ of 1 is "neutral", eg buy volume and advancers is the same as sell volume and decliners.

A TRINQ of 1-2 is modestly bearish, a TRINQ over 2 is very bearish, showing many sellers in the market.

A TRINQ of 0-1 is modestly bullish, staying down at zero to 1 etc shows buyers are in the market.

One advantage to the TRINQ is that it tends to move in pronounced levels, easier to spot big changes than in the sectors and COMPQ, on many days.

This makes it somewhat easier to spot if there are more buyers vs sellers in the market, and you should incorporate using the nasdaq trin, the \$TRINQ, into your trading efforts.



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- Using Fibonacci Retracements for Intraday Range Trading

• Main Points:

- Fibonacci retracements are useful to help you learn how to trade "bounces" and for managing trailing bounce play stops... they help you know "how much to expect out of a trade before it pivots". They are rough guides only, as every trade is unique.
- The basic idea is this: prices will tend to retrace only a portion of their first initial large move... not recover the entire movement. Eg VTSS may go from 40 at 9:35am down to 36 by 9:50am and bounce back to 38 by 10:15am, for example (not 40). This is a 50% retracement.
- Fibonacci values are useful in that they can provide rough estimates of where a price may move to, eg the support and resistance levels within a range.
- I use Fibonacci retracements ("fibos") as rough estimates to help me know when to start tightening up a trailing stop on an open bounce play, or, where to enter an open gap trade.
- Note that in time you should be able to "eyeball the chart" and see where the fibo values are. The primary ones are the 38%, 50%, and 62%, or, roughly 1/3 1/2 and 2/3 of the range.
- You can use Rick LaPoint's excellent "FibCalc" free program ([download here](#)) to help you identify specific fibo values within a trading range.
- Also, remember that bounce plays and retracements are lower - percentage trades than are 2-day high breakouts and 2-day low short breakdowns.

Here's what the FibCalc program looks like, I highly recommend it.

Rick LaPoint's Fibonacci Calculator						
Symbol	Retrace	24%	38%	50%	62%	79%
AMGN	BOUNCE	52.49	51.25	50.25	49.25	47.82
LOW	T 24%	54.50	53.26	52.26	51.25	49.83
	A 38%	55.74	54.50	53.50	52.49	51.07
	R 50%	56.74	55.50	54.50	53.50	52.07
	G 62%	57.75	56.51	55.50	54.50	53.07
HIGH	E 79%	59.18	57.93	56.93	55.93	54.50
	T 100%	60.99	59.75	58.75	57.75	56.32

How to Daytrade using Fibonacci Retracements

Here we see how to buy a bounce, and exit before it's "too late", for open profits.

Look at the fibcalc screen cap to the above right, I entered the initial values of 46 and 54.5 in it, you can see that the 50% retrace (the most important fibo to learn), is at 50.25, right near where it did, in fact, stop getting buying on the way up.

A classic textbook fibo bounce example.

AMGN EXAMPLE (3/22/01):

In this AMGN trade, we shorted all the way down to 46 in the TTO room, bought the long bounce starting at 46 1/2, and sold on the way up (twice) to under 50, where we closed out open longs.

See how the 50 price level is 1/2 the range of the 46 to 54 1/2? This is the most we expect from an initial long bounce. What it means is, you shouldn't be entering new longs close to the 38% or 50% after a stock has already been bouncing up, as it's likely to start turning down again.

The fact that it had bounced to near half the range on the way down was the exit target, eg the "max we expect from a bounce" on the initial bounce off a bottom.



AMAT EXAMPLE:

I want you to get used to thinking in terms of range retracements, as we see here in AMAT.

Stocks often make a major multipoint move, then retrace (go in the opposite direction) for up to half the initial range, before a reversal or consolidation occurs.

In AMAT here, you can see it ran from 46 to 47 3/4 (initial large run, almost 2 points), then retraced to 46 3/4, roughly half the range, before getting buyers back.

How does this help you? You need to learn the fibo ranges and pivots to manage your trades and get ready for new breakouts, and to trail close stops to lock in profits, on open trades that are "in the money"



MLNM EXAMPLE:

Here's another example, in the other direction, MLNM sells off, then bounces to roughly half the range, before consolidation, running out of buyers.

What this type of pattern means is:

1) The next time you look for a bounce play, you do not enter if it's already retraced $\frac{1}{3}$ or $\frac{1}{2}$ of its range. In this example, you could have bounce $27 \frac{3}{8}$, sell up near $27 \frac{3}{4}$ or 28. You would not be a buyer at say $27 \frac{3}{4}$ or 28, as it's "too late" for a bounce entry.

2) Once in the bounce early, you trail closer and closer stops the nearer you get to $\frac{1}{3}$ or $\frac{1}{2}$ of the range on the upside. So, if you're in from $27 \frac{3}{8}$ and it gets to $27 \frac{7}{8}$ here, then starts to fade back to the $\frac{3}{4}$, you can go ahead and exit, to take your $\frac{1}{2}$ point on the trade.



Bonus Play: Open Gap Retracements

Remember how we said that large (over 8-15%) premarket gaps are good plays on retracements?

Here's an example to cover how to use fibo ranges with the gaps.

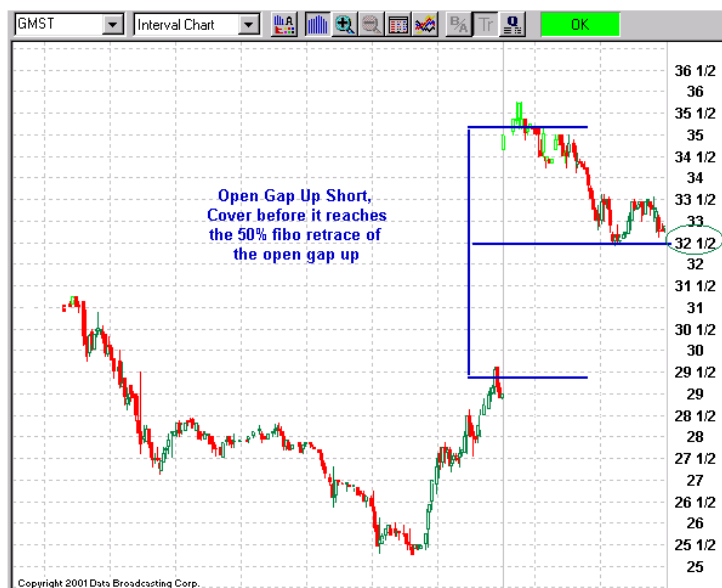
GMST EXAMPLE:

On the right, we see GMST 2-day chart in an open gap up selloff pattern.

A short on the open, say at the $34 \frac{5}{8}$, is covered before we get to the midrange. In fact, we tighten up our stops as soon as we get to $\frac{1}{3}$ of the range... in this chart, that's near $33 \frac{5}{8}$ or so.

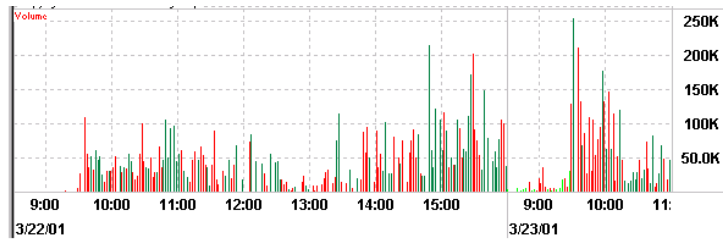
Covering out near the $33 \frac{1}{4}$ yields a +1 $\frac{1}{4}$ point trade.

We do not expect it to sell all the



way back down to the previous day's close, eg at the 29 1/2, we look to cover as it approaches the midrange, at around 32 1/2 to 33.

You can see that GMST bounced a couple of times off this 50% fibo retrace area, at 32 1/2.



Using Fibo Retracements with the \$COMPQ, \$GIN \$SOX etc...

Finally, let's look at how to use fibo retracements, expectancies, pivot areas, with our indexes and broad market indicators, like the sector charts (\$SOX \$GIN) and the Nas composite, \$COMPQ.

\$COMPQ EXAMPLE:

As always, the main point of using fibo retracements is to help us map out likely areas where a bounce or drop will retrace, after a large initial move.

In this \$COMPQ example, you can see the index dropped from 1850 down to 1895, then bounced back up to roughly half the range, at 1825.

How to trade with this? It tells you a couple of things:

- 1) Don't enter new longs if you're close to the midrange on the bounce, as it's likely to stall out here.
- 2) If you're in on long bounce trades, look to trail closer stops and exit with an open profit as you reach the 38%/50% fibo retracement areas.



Closing Comments: Fibonacci Retracement-Based Trading

Think of stock prices like a spring, that has a certain "stretch" to it, then bounces. Or, a ball that drops, bounces to a part of it's former height, then drops again.

In using Fibonacci retracements, you should be aware that the price will always double back on itself, always make pivots, at some point in time.

My primary use of fibos is to help me get out of bounces before they turn back against me, and to identify rough areas where I should begin tightening up my trailing stops to lock in profits. They also help me avoid poor entries, as I will not enter if it's already near a fibo retracement area... eg I would probably not enter new long positions if the COMPQ was at 1820, right under the 1825 previous consolidation/fibo retrace area.

Best wishes, and remember - bounce plays are Lower Percentage trades than are 2-day high breakouts, so, trade them carefully.



• Main Points:

- I've put together a solid comprehensive reference of the most important bullish long candlestick chart patterns you should learn in this lesson.
- The primary value of candlesticks to the daytrader is to be able to spot when reversals are beginning to occur.
- Reversals, also called pivots, are important to be able to spot early, before the crowd does, for two types of trades, when trading long:
 - 1) When protecting an open profit, you want to trail a close stop, and look to exit on any sign of weakness in the chart patterns. Candlestick patterns can tell you when buyers are done, and sellers are starting to come into the stock (eg dojis and others).
 - 2) They are also good for "bottomfishing" as a second indicator, beyond cup pattern reversals and volume reversal patterns. You look for signs like hammers and dojis at the bottom of a cup, before buying the breakout over a new whole number to the upside.
- Time interval for candlesticks: since my roundtrip trades can last from 3 to 15 minutes or so, I need to use fast candlesticks, and prefer 1-minute candles. Note that you will need to limit your chart timeframe to the 8:30am til 12 noon timeframe, to be able to clearly see the candles, when using 1-minute time intervals.
- You should experiment for yourself with 2-minute and 3-minute candlesticks.
- Add stochastics, MA lines and volume to help you with your candlestick charts.
- I have not found candlesticks useful for things like risk management, other than to alert me to possible tops, for open long positions. You need to use time & sales and level 2 for close risk management. The candlesticks are used to get you into bounce trades, and to get you out of open profitable positions, when you start to see reversal patterns occurring.

Bullish Candlestick Patterns to Go Long With

Bullish Candlestick Pattern #1:

the HAMMER

Not the MC type, this is instead a reversal pattern, similar to the doji (to be covered below, next) that shows a possible top or bottom after a sustained run in one direction or the other.

XLNX Example:

You can see here the hammer I've outlined at 10:38 or so in the stock.

It looks like the letter T with a small body at the top. The inverse pattern is good for tops (and is covered in the bearish candlestick lesson).

As the name implies, it looks like a small sledgehammer. The buy here using my strategy would be buy over 42 3/8 (with a stop loss at the 42), and an initial exit at around the 43 1/8 or so.



YHOO Example:

I've highlighted a hammer in YHOO for you on the open, right after 9:30am.

The other pattern I've highlighted is a candle (spinning top?) that looks like a doji, as the stock is reversing back to the upside.

Learn to follow the hammer as an initial indicator that buying has resumed in the stock, for the bullish hammers we've shown in these two examples.



Bullish Candlestick Pattern #2:

the DOJI

A Doji is a + type pattern, and can look like one of three candles, as you can see in this EBAY example's notes to the right.

EBAY EXAMPLE:

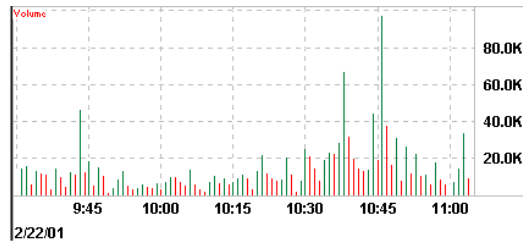
The thing I want you to spot in this EBAY bounce play is the doji where I've highlighted it and drawn an arrow to it.

Do you see the small red doji at the bottom? It looks like a plus sign. Don't let the color of the candle, for dojis or hammers, make a difference, the main thing is the size and relative position of the candle to the preceding and following candles.

Here the buy is over 42 3/8 after spotting the initial doji. On dojis, remember to not buy the doji just because it looks like a doji, you need also a cup pattern and for it to clear the whole number above the doji, and also to watch volume and time & sales.

These indicators are all meant to be used together.





QCOM EXAMPLE:

Here you see the doji at the bottom, followed by a nice volume spike on the upside.

This is a good entry, and you can see we got to over 65 from a $63 \frac{3}{8}$ entry before buyers slowed down.

Good example, it followed a multipoint drop and had a volume reversal to confirm the entry, after the doji appeared.



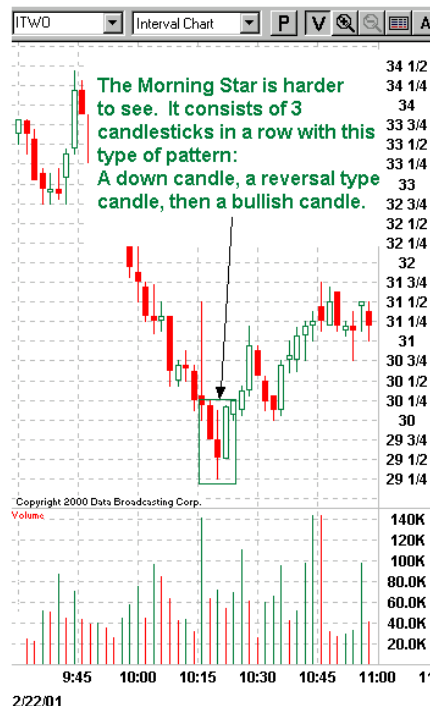
Bullish Candlestick Pattern #3: the MORNING STAR

A morning star is a consolidation and bounce pattern using 3 different candles in a row. It's a bit tougher to spot at first, since there's a sequence of 3 candles off a bottom you're looking for.

ITWO EXAMPLE:

You see one red candle on the way down, a candle with higher/lower tails, followed by a bullish candlestick in green on the way up.

The entry is over the highest part of the middle (reversal, red in this example) candle, and we'd wait til it clears the $30 \frac{3}{8}$ decade and whole number level for an entry.



Bullish Candlestick Pattern #4:

the BULLISH ENGULFING

Bullish engulfing patterns are easy to spot.

You are looking for a sequence of two candles in a row, one red one that is followed by a larger green one.

The green candle has to have a high and a low that is higher and lower than the red candle preceding it. In other words, the range of the bullish green (2nd) candle needs to be larger than the sell range in the red candle.

VRTS EXAMPLE:

Here you can see two things I've highlighted, the first is 2 doji-like candles that were Not a bottom (so we'd have to stop out on this first attempt).

The bullish engulfing pattern is following it, you can see the red candle at right after 10:30 am followed by the green, larger candle.

The correct entry on this is over the 57 3/8 previous support, over the whole number above the first 'engulfed' candle.



GMST EXAMPLE:

Here's one more bullish engulfing candle pattern to study, right after 10:30.

The small red candle is followed by a larger, engulfing green candle, showing that buyers are strongest.

In this example, I would wait for it to clear the whole number and previous high, eg buy right over 49. If time & sales is strong. However, I usually do not buy 9s, particularly under a decade number, so the best trade is to wait for it to clear the 50 3/8, later.



New- Pattern #5: 3-LINE BREAK

The final type of bullish pattern I'm covering here for now is what's called a "three line break". This is where you have three successive green candles in a row, each one that has a higher low than the previous candles' highest high.

When you are in a profitable open long, start getting ready to sell at the top of a 3-line break, as it's a pattern other traders also look to sell the top of.

MLNM EXAMPLE:

We see the bullish engulfing pattern here right after our 10:30 bottom. This is the buy signal, eg over the 27 3/8 or so.

The three line break you see, the second box, is great - we're in with a nice open profit. However, you look to exit at the top of a 3-line break (or sooner, of course, depending on whether your trailing stop gets taken out).

At the top of the 3-line break you see a doji-type candle occur, so we exit as it starts to grind down to the 28.

Another winning trade.



Module Six

Advanced Chart Patterns & TA

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MODULE 6



• [Bearish Candlestick Chart Patterns to Short](#)

• Main Points:

- As with the bullish patterns for longs, here I've put together a solid comprehensive reference of the most important bearish short candlestick chart patterns you should learn.
- You will become familiar with these patterns in time, and can use them to aid you in getting out of long open positions with a profit, avoiding initiating bad new long positions, and for entering short positions.
- Thus, there are several reasons why you should learn both the long bullish and short bearish candlestick chart patterns explained in these practical lessons with recent examples.
- Experiment with different time intervals on your candlesticks, you can try 1- 2- and 3-minute candles, along with stochastics (15/5/3), volume and other indicators.
- One of the difficult tasks facing new traders is the idea of learning to interpret price data with the somewhat-intimidating or unfamiliar candlestick notation.
- Reading more about candlesticks (eg Nison et al) and comparing the patterns in your charting software will help.
- To compare what a chart looks like in bar, close line, and candlestick format, use one stock you are familiar with and switch back and forth between these different types of charting in your software.
- You will find that different data is good for different purposes, ie I use close line 1-min thumbnail charts to scan the market (as many as 20-40 open at once), and use a large (2/3 of one monitor) 1-minute candlestick chart to get more in-depth information for a specific stock I'm looking to trade. Thus, you use the different types of charts in combination with each other. See [this link](#) for my 6-monitor setup example.

Bearish Candlestick Chart Patterns to Short

Bearish Candlestick Pattern #1:

the HAMMER

A Hammer shows that traders started the stock off in the immediate prior trend, continued, then started / closed at a reversal.

LLTC Example:

See the hammer pattern here as the stock starts to sell down from the 42 1/2 level. This is an "early warning sign" and can be used to initiate a short or to exit a long position with profits.

It looks like an upside down letter T with a small body at the bottom. This pattern is good to help identify tops.



Bearish Candlestick Pattern #2:

the DOJI

A Doji is a + type pattern, as you can see in this XLNX example to the right.

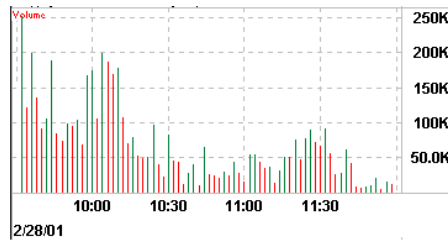
XLNX EXAMPLE:

See the doji where I've highlighted it and drawn an arrow - XLNX is putting in the top right under 40 decade resistance after a nice run up over a bullish cup pattern over the 38..

Do you see the small red doji at the top? It looks like a plus sign. Any open long would have a trailing stop up here near the 39 1/2, the doji may signal you to get out here. You could rebuy if it broke over 40 3/8 (it didn't) or short if it lost the 39 1/2, which it did.

Quiz: What's the pattern you see in the candles right before 11:30 in this XLNX example? (answer at bottom of page)





BRCD EXAMPLE:

BRCD is usually a bad stock to trade, however on this week it had good trading volatility, so we played it.

Do you see all 3 dojis where I've outlined them for you here on this intraday chart?

Important: note that dojis may not always signal a reversal, you need to use other indicators to help you manage your positions when daytrading with candlesticks. Of course the most important is to use a close stop loss, no more than $\frac{3}{8}$ of a point ever on any single position.

In these examples, the dojis followed through nicely, showing us where the price was turning.



Bearish Candlestick Pattern #3: the BEARISH ENGULFING

Bearish engulfing patterns look like two consecutive candles, a green one followed by a larger red one

The red candle has to have a high and a low that is higher and lower than the smaller green candle preceding it. In other words, the range of the bearish sell (2nd) candle needs to be larger than the buy range in the green candle.

KLAC EXAMPLE:

There's two bearish engulfing patterns in a row here on the KLAC example... our sell/short signal is when it loses the support at 38...

We enter short as soon as it loses the $37 \frac{5}{8}$, and trail a stop down to $35 \frac{1}{2}$ or so, for a $+2 \frac{1}{8}$ possible win.



HGSI EXAMPLE:

Here's a variation of the bearish engulfing pattern, a wide range candle pair at a top. It still meets our criteria, eg the sell bar is larger following the buy bar, at the top.



AKAM EXAMPLE:

Here's a final bearish engulfing candle pattern to study, you can see the red candle "engulfing" the previous green candle here right after 10:15.

Shorting tops like this is for experience traders only, new traders should simply learn these patterns to help you get out with a close trailing stop, to maximize your profit on each trade.

Use the candlestick reversal patterns as an early warning sign to help you close longs before they start selling down.

Experienced traders may consider selling open long profits and then shorting on an uptick following one of these patterns, provided close 3/8 stops are used.



Bearish Candlestick Pattern #4: the 3-Line Break (down)

The final type of bearish pattern we'll discuss is the "three line break". This is where you have three successive red candles in a row, each one that has a lower high than the previous candles' lowest low.

AMAT EXAMPLE:

Here's an example of a bearish engulfing pattern right before 10:30, followed by 2 more down candles.

The stock consolidates over 43 for awhile before breaking down, the short entry signal is when it loses the 43, say at 42 5/8 or so. A trailing stop would have us cover out at 41 1/2 for + 1 1/8 profit in the trade.



ONIS EXAMPLE:

Here you can see a two-day chart, we have another 3-line breakdown under the 2-day low.

This is often a good confirmation that the stock will continue selling for awhile.

One challenge is getting a short off into the sellers, you may need to try several times (eg keep hitting the short button til you get a fill, don't chase more than 1/4 of a point or so).

You can see that ONIS here sold all the way down to 34 1/2 before reversing, for a nice multipoint gain.



quiz answer: bullish engulfing



● Main Points:

- Stochastics are useful in helping primarily to determine potential pivots, or reversals, in a stock's current trend.
- They are considered of secondary importance to help decide whether or not to enter a position, as is level 2. Many new traders do not know how to "weight" the importance of the different indicators in helping make trade decisions. Remember, the chart patterns and time & sales are the 2 most important things to pay attention to. Stochastic bounces, level 2 patterns etc are of secondary importance.
- Having said that, there is still, of course, a place for stochastics (or "stochs" as professionals call them) in our trading toolkit.
- Also, you set parameters such as %K/%D in stochastics, I recommend 15 as the step (for signal users), other programs, use 15/5/3 (15/5) for your parameters.
- We look for one of two patterns in using stochastics: "Oversold" and "Overbought."
- **OVERSOLD:** When looking to either a) cover shorts or b) enter long bounces, you can look to whether the two lines of the stochastic have dipped below 10-20% and have crossed over to the upside. This may be an indicator of "oversold" in the stock, and, when used with other data (eg bullish cup reversal patter, volume buying, doji candlestick, time & sales hitting the ask, etc), can indicate a potential good long entry.
- **OVERBOUGHT:** When looking to either a) exit a long position or b) initiate a new short, you can look to see if the stochastic lines have gone over 80-90% and are starting to crossover to the downside. Again, use other indicators, this is a TA indicator that is part of a "team" of indicators you need to use simultaneously to correctly gauge entries and exits from your positions.
- Let's take a look at quite a few good chart pattern trading examples below.

OVERBOUGHT STOCHASTICS: Time to Close Open Longs, Possible new Short Entries

Stochastics give us an early, almost lead-indicator type warning that a stock is about to sell back down. Remember to always use trailing stops, eg if you were in from 63 3/8 here, we'd trail a stop and be out at 64 1/8 or so on the way up for a +3/4 trade in VTSS.

VTSS EXAMPLE:

On the right, we see VTSS intraday chart, with two overbought stochastics crossovers clearly labeled for you.

Notice that in both cases, they go near 80-90%, a potential overbought signal, and cross over to the downside.

You should be able to clearly see the red and blue lines cross over where I've circled them in the lower part of the chart to the right, yes?

I have also circled the corresponding "tops" in the stock price chart in the



upper half, you can see the clear indication of the stoch crossovers and the resulting drop in the stock price shortly thereafter.

This is not a crystal ball indicator however, and stochastics are right maybe 50-60% of the time only, so, a word of caution to use them as a secondary indicator in your trading. They are often right enough to be worth paying attention to, but you need to integrate several buy/sell signals and trailing stops etc into your trading style to be effective... so, don't over-rely on stochastics, or level 2, to help with your trading.

ALTR EXAMPLE:

Here you may see another example, of ALTR, with our stochastic overbought signals circled for you to learn from

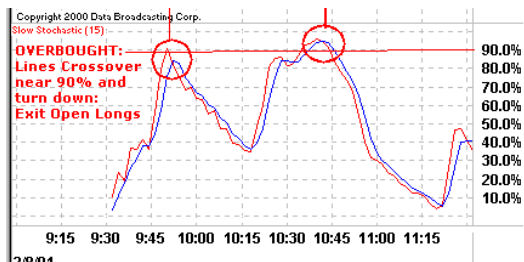
The best signal is after it rises all the way up to near 100%, and then crosses over, to the downside, right after 10:30 am.

I've also put a horizontal red line on the chart for you to see the key price level, 27 3/8, for this stock on this morning... this is the reversal line.

The first stochastic crossover, as you can see, would get you out, probably incorrectly, as it only pulled in 1/4 point before making a cup breakout to the upside, for a 3/4 point run, before our second stochastic told us the stock was overbought up here.

This is another tip to learn: I personally like to use stochastics mostly for exit signals (as I do with level 2 bands), vs. to decide to enter a stock long.

However, there are times where oversold stochastic bounces are good. Note that these are for more experienced traders, I provide some good examples in the charts below.



OVERSOLD STOCHASTICS:
Time to Initiate Longs, one signal of several to use

Here's the inverse of the above, learning how to buy bounces on stochastic reversals. Again, these are not highly reliable if used by themselves, I prefer to buy cup breakout patterns... or, bounces off of multipoint selloffs after we get a volume bull cup reversal to the upside. The stochastic crossover can provide a key as to when to cover a short in these examples, or for new long entries.

NXTL EXAMPLE:

On the right, you see a bounce in NXTL off the bottom at 34 5/16.

Do you see the stochastic crossover where I've circled it in the lower half of the chart?

We see it's dipped under 20% and is reversing to the upside.

This trade could be good for up to a point from 34 3/8 to 35 3/8.



AMAT EXAMPLE:

Here's a good volatile example using Applied Materials, AMAT, a perennial daytrader's favorite.

This nice chart pattern yields both good examples of long stochastic bounces off an oversold bounce, as well as a "get out here" signal when it crosses over and loses the 90% after 10:30 am.

Again, we look for the signal lines, the %K/%D, to cross over under the 10/20% to the upside, as our first potential indicator that buyers are in the stock.

Rely more on the time & sales, once you see a stoch crossover, to let you know if a long play is worth trying. What's the net action in the stock - more buyers or sellers, or mixed? Stay out as long as the t&s shows a christmas tree-like green and red pattern. Instead, wait for it to move in favor of buyers, and begin to look at level 2... if there's no heavy INCA or "heavyweight mm" (MLCO MSCO SBSh etc) selling, then you may want to consider a long entry.

These indicators create a system you should pay attention to - they are NOT meant to be used in isolation from one another. Be looking at the TRINQ, the sector charts, the COMPQ, etc when making trading decisions. And always always hold yourself to 3/8 max stop losses.



NUAN EXAMPLE:

Here's a super strong cup breakout following a stochastic bounce to the upside in NUAN, good for a multipoint run.

NUAN is an unfamiliar ticker to me, to this day I still have no idea what they do. All I know is, it comes up on my scanner, it meets my minimum-volume requirement (eg over a few hundred K shares on the day so far etc), and I look to trade it.

This example isn't really a stochastic bounce to the upside, but it did provide a crossover signal to get over the 20% right after the open, at 9:40, so, it catches my attention.

The cup breakout pattern over 38 3/8 is a confirmation that a long trade is good, and we're off to the races on this one.

Trailing a close stop of 1/4 to 3/8 point is always a great idea, and we can either a) sell under each whole number at the 15/16 or so, sitting out the whole number resistance, re-entering right over, at the 3/8 again, or b) use a trailing stop to keep us profitable all the way up to 41 3/4 or so from a 38 3/8 entry.

So, in summary, use stochastics as part of your trading decision criteria, and look for other indicators to help confirm your entry.



Module Six

Advanced Chart Patterns & TA

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- Recognizing Breakouts and Breakdowns: Trading Consolidation Pattern Breaks

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• Main Points:

- The most important patterns to recognize are **bull cup breakouts**. Following this, we have technical **uptrends** (higher highs, higher lows, making bull cup breakouts on the way up).
- Next, we have **consolidation breakout** and breakdown patterns. Let's start by figuring out how to spot a consolidation, and what it is.
- Consolidation: an area on a chart pattern, typically lasting from 15 minutes to several hours, where the stock is basically "flat" in a narrower-than-usual trading range.
- For example, if YHOO as a \$40 stock has a 3-point average daily trading range, say goes from 37 1/2 to 39 3/8, then trades narrowly, chops, between 39 and 39 7/8 for the next hour, we say it's "consolidating", eg no trend is seen, it's in a narrow trading range. Your goal is to trade the breakout above/below the consolidation area.
- Note that this is for a narrower-than-usual range, you need to first recognize the difference between stocks that are just chopping around in their average trading range vs. when they're in a narrow range, one that can yield good trading potential once a breakout occurs.
- First, you need to use your two-day chart and draw horizontal trendlines from the previous day's high and low.
- Next, draw trendlines to define the current narrow consolidation range the stock you're watching is in, for today's trading. The best consolidations to trade are those that are right under the 2-day high line (for breakouts) and right over the 2-day low line (for breakdowns). Do Not trade a stock that's in the middle of its two day range.
- Finally, decide where good trade entries would be. Personally, I like to buy right over a whole number breakout near the 3/8 on a new 2-day high. In the YHOO example, we'd buy once it clears the 40 3/8. The 39 7/8 is the temporary "top of the consolidation", we wait for it to get over decade resistance and a 2-day high, to buy over the 40 3/8.

Recognizing and Trading Consolidation Breakout Patterns

First of all, let's start with the basics: I want to show you how to recognize a consolidation pattern on an intraday candlestick chart.

You are looking for a series of tops and bottoms, over a 15 minute to several-hour time frame, where you can draw consolidation lines, the trading range.

You never want to guess the direction that a breakout will occur in, it can easily go either way.

Instead, you want to prepare to enter a trade once a support/resistance level has been penetrated to the upside (for a long) or to the downside (for a short).

Your stop loss, as always, must be no greater than $\frac{3}{8}$ of a point on any singly daytrade (regardless of the number of shares you're trading).



Itty bitty chart example: see where the upside breakout occurs above the consolidation lines I've drawn?

Tip: oftentimes, I've seen cup patterns on the open, and consolidation breakouts/downs after the lunch, in the afternoon session. Look to play cups in the morning, consolidation breakouts/breakdowns if you choose to trade the afternoon session.

GSPN EXAMPLE:

Here you can see where I've drawn the consolidation/cup pattern lines for several distinct trading waves for this GSPN chart.

The first is roughly 30-31, the next, from 33 to 33 1/2 (nice tight range), the third is 34 1/2 to 35 1/2.

What does this tell you?

To trade in the direction of breakouts that occur once the stock has started to make its move.

Another tip: watch volume for these plays. In the first example, you can see volume picked up right after 10:30, as the stock started to slow its upwards movement.

This change in volume tells you to exit with profits, if the stock has started moving. In the first breakout example, it could easily have dropped back to 31 1/2 or so after its initial run. At 10:45, after drawing the initial lines, you should say to yourself, "Ok it's ran up some here, I'll short it if it loses the 33 support, or go long if it gets over 33 1/2 or so".

Can you see where the consolidation ranges are? That's the most important thing I want you to take away from these examples: to be able to draw the lines where the support and resistance, congestion areas, consolidation, occur, so you can prepare to trade breakouts successfully above/below these areas.



Shorting Consolidation Breakdown Patterns: Lunchtime and Afternoon Session Shorting Explained

Okay, here's a fairly heavily annotated VTSS chart (I like it, and XLNX KLAC ALTR NVLS etc for \$SOX semiconductor sector trading).

Don't let it scare ya, let's learn from where I've made some notes to help.

VTSS EXAMPLE:

On the right, you see three distinct trends in VTSS this day:

1) The initial uptrend, made an ascending triangle and a breakout over 69 1/2.... in my trading style, I'd have us buy 70 3/8.

2) For the next several hours, VTSS then traded in a consolidation range, from 71 3/4 to 72 3/4. This is where Not to trade it. Instead, you get ready to trade it once you've identified these support/resistance levels. Again, at say 14:00 hours, 2pm, we have no idea as to where it's going, only that it has a slight downside bias since it's retested the bottom of the consolidation like (a triple bottom) vs testing the topline. So, we get ready to short.

3) Finally, we have a trade in shorting VTSS once it loses 71 3/4 or so at right after 15:00, 3pm EST. It lost a point and a half, for another decent trade. We'd have our initial cover stop target at near the open breakout, at the 69 3/4.

The two black ovals show where profitable trades are executed, over the triangle breakout on the open, and a short under the consolidation area later in the session under the 71 3/4 line.



These chart patterns are daytraders' favorites, and you should learn to trade them. You should anticipate getting shaken out on wiggles initially, say the first few months, as you master order entry and stop loss management.

I've found that "good trades are usually good right from the start", so, if in doubt, get out, and always always keep losses to a minimum, even if it means stopping out once and re-entering a second time, for example, to get the winning trade.



- Patterns for Fast Traders: Chart Patterns for the First 30 minutes of the Market, 9:30-10am

● Main Points:

- Note: New traders should not day trade until after 10am. This is because we often get reversals every 8-10 minutes or so, eg at 9:40, 9:50 and again at 10am. You need to be able to execute your trades in a 5- to 8-minute round trip timeframe, which is usually too fast for new folks to keep up with.
- After you've mastered 2-day breakouts, you can attempt more advanced techniques like buying bounces on reversals and playing in the first 30 minutes of the regular session.
- This is a very volatile and active time to trade. Often you will see buyers from the premarket continue to push the price up until 9:35 or 9:40, at which time professionals are shorting, you see the stock start to sell back down, "losing steam". This is often referred to as a gap n trap, a misnomer, it is actually just the slowing down of public order flow into the open.
- One key to success in trading the first 30 minutes is being able to master order routing. Most of my trades are done via ISLD, also I'll use SOES Limit orders if there are temporarily no ecns on the inside. Since you're experienced, eg you're trading this timeframe, this should be little problem, and you know, of course, not to use your brokers "smart" order routing, instead preferring the direct control you can exert over routing your order to the exchanges.
- The basic pattern that we need to master for trading the first 30 minutes is micro-cup patterns, eg bullish cup patterns that we trade closely, tightly, using 1-minute charts and time & sales, into the open.
- We can also trade open gaps in the direction of a continuation/reversal, depending on the chart pattern.
- Both are potentially profitable for the decisive, fast, experienced trader.

Cup Pattern Breakouts in the First 30 minutes: 9:30-10am Pattern Trading

Cup Pattern Breakouts are excellent since they keep us away from risky "guessing" about a stocks' bottom or breakout, we have waited until buyers are definitely back into the stock before entering a new trade.

TQNT EXAMPLE:

Here's a cup pattern breakout; note that you Do need premarket charting ability to trade the first 30 minutes. This is one reason I like esignal.com (I think rtlll may offer it as well, you need to check).

Notice that the stock opened at right under 18 premarket, sold down to 17 3/4 at around 9:35, came back over the 18 around 9:40, and started to breakout around 9:50 or so.

The trade is to buy 18 3/8 at around 9:50, and be ready to close the position no later than 10am, or when your trailing stop (which needs to be close, 2 spreads or so on these) is hit.



HGSI EXAMPLE:

Ok I've even drawn the cups for you to see in this one, it sold down and recovered two times, you could buy either breakout.

Note that the first breakout is usually the strongest, best one to buy, and that subsequent "cups" should be looked at with an increasing degree of skepticism re: follow through.

Many new traders fail to act on the first trade signal, then watch it run up, then try to get in on the 2nd, or later, lower-probability trade. This is an error. You need to be in early on good trades.



SONS EXAMPLE:

Here's a 2-day chart of SONS, the main thing to look at is the start of the second day, where I've annotated three trade signals that were generated.

Noting the previous day's open/high/low/close proves useful to us, as we buy the first micro-cup over a bounce over the previous day's support, at 28 1/4 or so and again over the 29 3/8 2-day high. The third trade is over the 30 3/8 decade resistance.

Can you see the patterns in the candlesticks here?

You are looking for U-shaped cup breakout patterns throughout the first 30 minutes, for fast profits.



Bottom Fishing in the First 30 minutes: 9:30-10am Pattern Trading Play #2

Another favorite opening play is the fast bottom bounces, on cup reversals.

QCOM EXAMPLE:

On the right, you see QCOM making both of these trading patterns:

1) An initial bounce over 53 3/8 for a long, we look to sell out around 54 1/2 or so into the fibo 50% retracement of the selling down.

2) We also buy a new high of the day on a cup breakout, over the 56 3/8, trailing a close stop. We would be out the first time at 57 for +5/8, and out the second time at around 57 5/8 for +1 1/8 or so.

The stock gets up to 58 before getting sellers, you can see a small green doji up at the top, near 58, before QCOM heads back down.

Several good trades to be had in it.



Open Gap Trading in the First 30 minutes: 9:30-10am Pattern Trading Play #3

Remember how I always talk about stocks that are gapping over 8-15% on volume over 20-30K premarket are worth watching for a trade?

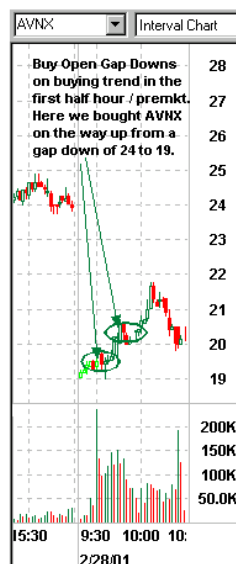
We need to remember that we usually buy gaps down and short gaps up, when they are large. But, we wait for confirmation of the reversal before getting in. As an example, QCOM gapped down, and kept selling all morning (at tradingtheopen.com we shorted it 5 times on the way down :).

Here's an example of a gap down and long recovery (we traded it twice on the way up long at tradingtheopen.com for nice profits).

AVNX EXAMPLE:

Take a look at AVNX here, a nice large multipoint gap down, to right over 19 premarket. We buy on strength once it clears 19 3/8, and again over the 20 3/8 decade resistance, for nice long wins.

You will notice that most of the profit potential occurred from 9:30 til 10am.. this is common for gap retracement plays, so, you need to be fast to trade these.



HGSI EXAMPLE:

Here's a good look at a gap continuation (not reversal) play: HGSI gapped up from 49 to 51, then continued on up.

We are cautious about buying a gap up (instead, usually looking for a short entry), so we set our long entry a whole point up above the gap value, at 52 3/8 for a long.

Guess what? It runs, our trailing stop keeps us in til 53 5/8, at which time we sell, taking a healthy 1 1/8 point profit long before 10am occurs.

So, we need to look for cup patterns to tell us to get in on a continuation or reversal, and play in the direction of the trend for a timeframe of up to 10 minutes max for the round trip, during trades we fill during the first 30 minutes of the trading day.



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- "Hanging on a Cliff Ready to Drop" Short Chart Pattern Tips

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• Main Points:

- This is a combination of using consolidation and bear cup breakdowns, most frequently following a large rise in a stock price, as it attracts sellers.
- As this is the opposite of trying to "catch a falling knife", it's for experienced traders (over 1-2 years profitable fulltime experience) only, as we are shorting the first sign of weakness, after a breakdown technical signal.
- I have included a good number of chart pattern examples here below to help you spot these trading opportunities.
- The best time for these is, as always, following a 2-day low breakdown. The riskiest is following a multipoint run to the upside.
- If you're good, you can catch a reversal and profit on the way down, the "other side of the mountain".
- If you're not good, you can get caught in a continuing uptrend, and suffer a "short squeeze". As always, you need to know how to properly use the L2 and time & sales tools to manage these trades correctly.

More Shorting Breakdown Patterns:
DTU "Hanging on a Cliff" short plays for experienced traders only

"Hanging on a Cliff", means, the stock is approaching a breakdown under a support level. Learn to identify these, both to exit profitable longs (using trailing stops) and to enter new shorts, the subject of this lesson.

NVLS EXAMPLE:

On the right, we see NVLS intraday chart, with a consolidation area, very tight, from 41 1/2 to 42 for much of the trading day, after an initial run up.

Note that we'd need to try this trade twice to succeed, as we got stopped out on the initial loss of 41 1/23, around 11:20, and made the big profitable short in the afternoon, shorting right after 13:00, 1pm, EST.

Our cover target in this is right over 40 decade support, we can re-short once it loses the 40, but the best trade is to be out at say 40 3/8 from the 41 3/8 short entry.



It's usually good to choose stocks with high volatility for these plays.

INTC EXAMPLE:

Although INTC usually isn't volatility, it led the way in a chip selloff on Feb 13th, 2001, in the afternoon, and was a profitable short under the 34 "cliff"...

Here you see INTC breaking down and losing the 34 morning support around 1pm, 13:00, where it gave us our first short alert.

It's important to be able to identify the consolidation support/resistance levels, the "hanging on a cliff" is where it teeters, before finally giving in to selling pressure, which takes it back down.

Initial exits are always near the morning's open, if we're selling a large bear cup pattern (eg we short the right side of the cup, once it loses support).



More Shorting Breakdown Patterns: DTU "Hanging on a Cliff" After an Open Gap Up Chart Patterns

Here's an advanced variation using both our "short open gaps on any sign of a breakdown under a bear cup pattern" and our "hanging on a cliff" rules.

ONIS EXAMPLE:

On the right, you see a selloff on a 2-day ONIS chart... it closed at 47 1/2 and gapped all the way up to 52 premarket on the open.

We never just blindly short an open gap up, it could easily have kept running up. Instead, we wait for a couple of things to occur:

- 1) Since it's near a decade number, we wait for it to lose the 50, and short at say 49 5/8.
- 2) We want to see a downtrend, or at least a bear cup, prior to shorting it on the open. The least preferred open gap up short is one that simply gaps up and sells down with no support, as it could reverse to the upside on us quickly.

We want to see it test buyers, and continue selling off, as it does in this example, you can see it popped up to 50 1/2 a bit before continuing on down.

The first TA based cover target is the previous day's close, in this case, around 47 1/2. Nice short from 49 5/8 - almost a 2 full point winner on a \$50 stock... that's 10% profit for 2 hours patience in the short. Not too bad an ROI.



PPRO EXAMPLE:

Here's another good volatile example using PPRO gap and bear cup, losing the cliff on the open at right under 18 3/4 for the short play.

As you can see, our cover stop is at the previous day's high (or close, whichever is highest, as in the ONIS example above).

This short yielded over 1 5/8 points profit from a \$20 stock. Again, a superb trade, executed correctly.

Where would our buy entry have been on the open? If it traded over the 20 3/8 or so, it would be a buy. It didn't, it tested 20 decade resistance and faded all the way back down to 16.

Nice movement, on heavy volume.



Let's look at one final example here:

I always advocate a "systems approach" to trading, where we combine several indicators to give us a buy/sell signal.

AKAM EXAMPLE:

Here's AKAM, a b2b stock I like to trade (along with ARBA CMRC etc).

We see a descending triangle on the open, and it gives us the short signal once it loses the 24 3/4 support line.

The first place to cover (and possible enter for a long bounce), is when it makes a bull cup on a volume reversal, as we can see here at 14:00, 2pm EST.

See the volume spike at the bottom? This would have us cover our short at the 24 1/4 or so, and enter long 24 3/8. In this case, it didn't bounce, so, we made a large profitable short and took a small stop loss on a bounce attempt long.

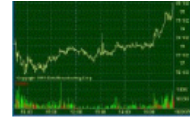
The key is to have the win:loss ratio consistently profitable; by using these chart patterns you should learn how to begin trading more effectively, and nailing the winners.

Good trading all.



Trading Your Favorite Long Chart Patterns

Let's find out which Long Chart Patterns are the most profitable for you. I've put together this worksheet to help you keep track of the patterns that produce the most consistently profitable trades in your trading.



Trader Instructions: Make several copies of this worksheet and use it to track your progress for your long trades. By studying your successful trades and your stops, you should be able to find a pattern - eg the type of chart that works best for you, the time bought, the stock sector and more

[illegible]

Advanced Risk Management: Using Trailing Stops and Stop Losses

Let's put together a stop loss game plan using this worksheet.

I want you to jot down your thoughts regarding how you plan to manage your stops the Next time you're in a live trade.

Using 1/4 point to 3/8 point Stops

In the space below, I want you to write down the stops that you take on the next three trades you make.

Stock: <i>example:</i>	Buy Price:	Stopped out:	WHY out?
CMRC	30 3/8	30 1/8	t&s all sellers
1.			
2.			
3.			

Exceptionally Tight Stops using Level 2:

Here's another technique: you can get in, say over a whole number at the 3/8, and get back out if the number of participants on the inside bid decreases from, say 7 to 2. This is a very tight stop loss strategy, and can also be used profitably. Say you buy YHOO 42 3/8, when there's 7 participants on the inside bid at 42 1/4... then it drops to 2 bidders, boom hit one of them and be out with a small 1/8 loss max. Try this one.

Trailing Stops to Lock in Max. Profits Per Trade:

Using trailing stops is vitally important in the choppy market we've been experiencing recently.

Let's look at a few tips for trailing stops.

In the L2 box below, let's say we've been in this trade from 22 3/8 and it's now at 23 1/2. A trailing stop at 3/8 points back from the inside means we'd sell the if it drops from 23 1/2 to 23 1/8.

You may well want to use even closer trailing stops, say at "if it starts to lose the 23 1/2 on level 2", eg if MLCO NITE disappear, you might want to sell to one of the remaining bidders, to lock in a good profit.

In the space below, jot down the SIZE of the trailing stop:
you use on each of your next three trades:

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MMID	Bid	B...	MMID	Ask	A...
MICO	23 1/2	10	ISLD	23 9/16	20
NITE	23 1/2	10	INCA	23 9/16	1
MADF	23 1/2	10	BTBD	23 11/16	5
REDI	23 1/2	4	BRUT	23 11/16	5
MASH	23 1/2	3	MSCO	23 3/4	10
OLDE	23 7/8	10	LEHM	23 3/4	1
MSCO	23 7/16	10	GSCO	23 7/8	10
SLKC	23 7/16	10	NFSC	23 7/8	1
BRUT	23 7/16	1	MONT	23 7/8	1
ISLD	23 3/8	10	FBCO	23 7/8	1
DRAV	23 3/8	10	NWSC	23 15/16	1